

EXHIBIT H

Moody's views Serta Simmons' transaction as distressed exchange, downgrades existing first and second lien term loans; outlook negative.

 moodys.com/research/Moodys-views-Serta-Simmons-transaction-as-distressed-exchange-downgrades-existing--PR_426243

June 11, 2020



Rating Action:

11 Jun 2020



New York, June 11, 2020 -- Moody's Investors Service, ("Moody's") today downgraded Serta Simmons Bedding, LLC's ("Serta Simmons") first lien term loan to Ca from Caa3, and its second lien term loan to C from Ca. At the same time, Moody's affirmed Serta Simmons' Corporate Family Rating ("CFR") at Caa3, and its Probability of Default Rating ("PDR") at Caa3-PD. The rating outlook is negative.

These actions follow Serta Simmons' entry into an agreement in principle with a majority of lenders of its first lien and second lien term loans to recapitalize the company by allowing for certain new super priority tranches in exchange for existing debt at an implied valuation level that is subpar relative to the initial investment. In total, the proposed transaction will reduce the company's funded net debt burden by approximately \$400 million.

The proposed transaction involves \$200 million of new capital from lenders in the form of an un-rated super-priority first lien "first-out" tranche (FLFO) ranking ahead of the existing first lien term loan. Additionally, the company will exchange a portion of its existing first lien term loan and existing second lien term loan into a new super-priority tranche of up to \$875 million that will be a first lien "second-out" tranche (FLSO) in payment priority following the FLFO tranche.

The proposed transaction also gives the company the ability to create an additional basket for super-priority "third out" debt that would rank ahead of existing first and second lien term loans and that can be used for future exchanges of existing first lien and second lien term loans. Pro forma for the proposed transaction, cash on hand will be roughly \$300 million at close and there will be no material debt maturities until 2023.

Moody's views the proposed transaction as a distressed exchange given that a majority of existing first-lien term loan lenders will exchange \$100 of existing first lien term loans for \$74 of FLSO term loans, and the majority of existing second lien term loan lenders will exchange \$100 of existing second lien term loans for \$39 of new FLSO term loans. Additionally, Moody's believes that term loan lenders who do not consent to the transaction will potentially be left with little or no remaining collateral coverage in Serta Simmons, as well as in a position that is subordinated to new, higher priority debt. As such, upon close of the transaction, Moody's will append the PDR with an "/LD" designation to indicate a limited default, which will be removed after three business days.

The affirmation of the Caa3 CFR considers that, while the proposed transaction would provide additional liquidity, Moody's believes Serta Simmons' pro forma capital structure is not sustainable, and as a result, there is a continued high risk of additional distressed debt exchanges and/or a more comprehensive debt restructuring. Despite the roughly \$400 million reduction in the company's funded debt burden, the proposed transaction will meaningfully increase the company's cash interest cost, and leverage will remain substantial. Pro forma debt/EBITDA is 10.6x, Given the company's already weak operating results along with the difficult operating environment created by the corona virus pandemic, that metric will increase to approximately 15x over the next 12-18 months.

The downgrade of the existing first lien term loan to Ca from Caa3 reflects weakening recovery prospects from the subordination to higher priority debt including the new FLFO tranche and FLSO tranche that will materially weaken recovery prospects. The downgrade of the second lien term loan to C from Ca reflects even weaker recovery prospects compared to the new FLFO tranche, FLSO tranche and existing first lien term loan.

Serta Simmons Bedding, LLC ratings affirmed:

Corporate Family Rating, at Caa3

Probability of Default Rating, at Caa3-PD

Serta Simmons Bedding, LLC ratings downgraded:

Senior Secured First Lien Term Loan due 2023 to Ca (LGD5) from Caa3 (LGD3);

Senior Secured Second Lien Term Loan due 2024 to C (LGD6) from Ca (LGD5)

The outlook is negative

RATINGS RATIONALE

Serta Simmons' Caa3 CFR reflects Moody's concern regarding the sustainability of the company's debt capital structure given the company's substantial pro forma and projected leverage, and aggressive financial policy under private equity ownership, evident by the \$670

million debt financed dividend paid in 2016 and its continued high financial leverage. The ratings are also constrained by the volatility in profitability and cash flows experienced during economic downturns. Positive consideration is given to Serta Simmons' solid scale with revenue of about \$2.2 billion, leading market share, well-known brand names and product development capabilities.

Serta Simmons is moderately exposed to environmental, social and governance (ESG) risks. The company uses, transports, and stores chemicals in its foam manufacturing process. A failure to adhere to environmental regulations and safe practices could result in financial penalties and remediation costs.

The rapid and widening spread of the coronavirus outbreak, deteriorating global economic outlook, falling oil prices, and asset price declines are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. The consumer products sector has been one of the sectors affected by the shock given its sensitivity to consumer demand and sentiment. More specifically, the weaknesses in Serta Simmons' credit profile, including its exposure to multiple affected countries have left it vulnerable to shifts in market sentiment in these unprecedented operating conditions and the company remains vulnerable to the outbreak continuing to spread. Moody's regards the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. Today's action in part reflects the impact on Serta Simmons of the breadth and severity of the shock, and the broad deterioration in credit quality it has triggered.

The negative outlook considers Moody's view that Serta Simmons' pro forma capital structure is not sustainable, and as a result, there is a continued high risk of additional distressed debt exchanges and/or a more comprehensive debt restructuring. It also reflects Moody's view that Serta Simmons' ability to materially improve revenues, earnings and free cash flow is weakened by efforts to curtail the coronavirus and an anticipated pullback in consumer spending.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Ratings could be downgrade further if Serta Simmons' liquidity or recovery values weaken, or should Moody's feel the company's capital structure is becoming increasingly unsustainable. This would include an increased probability that Serta Simmons will pursue a debt restructuring.

An upgrade would require that Serta Simmons materially improve its operating performance and reduce its financial leverage. Moody's would also need to gain greater comfort that the company's capital structure is sustainable before considering an upgrade.

The principal methodology used in these ratings was Consumer Durables Industry published in April 2017 and available at

https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1060509.

Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Serta Simmons Bedding, LLC is the parent company of Serta International Holdco, LLC ("Serta") and Simmons Bedding Company, LLC ("Simmons"). Both Serta and Simmons manufacture, distribute and sell mattresses, foundations, and other related bedding products. The company's brand names include, Serta, Beautyrest, Tuft & Needle and Simmons. The company is majority owned Advent International and generates about \$2.2 billion in annual revenue.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at:

https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at

https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

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No Related Data.

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